

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6469**

**BILL NUMBER:** HB 1461

**DATE PREPARED:** Jan 1, 1999

**BILL AMENDED:**

**SUBJECT:** Military service income tax deduction.

**FISCAL ANALYST:** Diane Powers

**PHONE NUMBER:** 232-9853

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues			(1,000,000)
State Expenditures			
Net Increase (Decrease)			(1,000,000)

**Summary of Legislation:** This bill provides an income tax deduction to individuals for the first \$3,000 received for military service. (Current law allows individuals to deduct the first \$2,000 of income received for military service.)

**Effective Date:** January 1, 2000.

**Explanation of State Expenditures:** The Department of Revenue (DOR) will have some minimal administrative expenses to revise tax forms, instructions and computer programs in order to adjust for this change in the military service deduction. These expenses can be covered in their existing budget.

**Explanation of State Revenues:** This bill increases the military service deduction from \$2,000 to \$3,000. According to the 1996 DOR Individual Income Tax Statistics, approximately 37,000 taxpayers claimed the current deduction for approximately \$72 M in income. This resulted in a revenue loss of \$2.5 M. This deduction has been declining over the last 6 years at approximately 8%. The current value of an additional \$1,000 deduction would be \$1.25 M. The increase in this deduction is effective for tax years beginning January 1, 2000. However, assuming the continued decline in the current deduction due to military base closings, the additional \$1,000 deduction is expected to reduce individual income tax revenue by less than \$1 M for FY 2001 and years after. Individual income tax revenue is deposited in the General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Counties with a local option income tax will experience a minimal reduction in their local option income tax revenue.

**State Agencies Affected:** Department of Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Department of Revenue; Mike Dove, (408) 583-2400, Department of Defense, Manpower Data Center.